

## SACS ACCOUNTING COMMITTEE

### Minutes

April 3, 2001

#### I. Announcements

- A. For a comprehensive set of Frequently Asked Questions about the indirect cost rate:  
<http://www.cde.ca.gov/sfsdiv/financial/icr.htm>
- B. The State Controller's Office has decided to terminate the e-claims pilot. However, CDE will continue the e-mail payment notification system.
- C. Contact Martin Harris (916-323-6027 or [mharris@cde.ca.gov](mailto:mharris@cde.ca.gov)) if you would like your name on his list of people to contact when he updates the SACS validation tables.

#### II. Accounting Issues

##### A. Charter School Reporting

Teri Chen of School Fiscal Services discussed the current status of charter school reporting.

- 1. For 2000-01, the financial reporting for charter schools will be the same as for 1999-2000. The charter school's data may be combined with the authorizing LEAs general fund, reported in Fund 09 Charter Schools, reported on the "J200" software, or reported on hardcopy.
- 2. For 2001-02, CDE is providing more options for charter reporting.
  - ✓ Consistent with prior years, charter financial data will continue to flow through the authorizing LEA prior to submission to CDE. Multiple charters within a district can continue to report differently, some reported in the district's general fund or in Fund 09.
  - ✓ New for next year, charters that are non-profit public benefit corporations will have the option of using the non-profit accounting model rather than the governmental accounting model. CDE will provide a new Charter School form that is similar to the Enterprise fund format, using full accrual accounting.
  - ✓ For charters that do not use full SACS, we have proposed two new options:  
**SACS EZ**, still in draft form, has been designed for charters accounted for in Fund 09 who have asked for a more simplified reporting format. The amounts reported will be cross-walked by the software into SACS data

lines using significant assumptions to allocate costs to SACS functions and objects. Teri distributed a copy of this form for discussion.

**SACS Lite** is a draft form that provides more detail than SACS EZ and thus will provide a more accurate SACS crosswalk.

These are in addition to the two previous options:

**SACS Heavy** is the full SACS report available now to Charters whose data is reported in the LEA's general fund or Fund 09 or in the new non-profit fund report mentioned previously.

**J200** is available to charters in all funds and may be submitted on hard copy to CDE. (This option will no longer be available once all LEAs have converted to SACS.)

## B. Child Development

Steev Schmidt of CDE's Child Development Department assisted in answering some Frequently Asked Questions we have received from LEAs that receive child development contracts. Some of the points covered in the discussion were:

- ✓ When two or more contracts support a single program (the same contract type, the same contract rate, serving the same type of children), the contracts expenditures may be commingled. However, each contract's parent fees, interest income, and start-up expenses must be reported on separate lines on the fiscal report. We discussed different ways to do this with SACS codes and locally defined subsets of SACS codes.
- ✓ Contracts that provide different services or serve different children may not be commingled. If they are located at the same site, they may share common costs (such as a director's salary or utilities) per a Program Cost Allocation Plan.
- ✓ A Child Nutrition program must be accounted for separately in Resource 5320 Child Care Food Program. The revenue must be added manually to the contract's fiscal report.
- ✓ If a program has a local component that collects "unrestricted" parent fees, the local revenue may be reported in the Resource of the contract with expenditures commingled. In fact, for some contracts, the LEA is required to commingle the expenditures. In other cases, it is possible to report the local revenue separately in Resource 0000, with corresponding expenditures.
- ✓ A childcare facility funded solely by parent fees may be accounted for in an enterprise fund, which requires full accrual accounting. However, if the program serves certified children and receives state or federal funding, the program should be accounted for in the Child Development governmental fund.
- ✓ A LEA may be approved to have a reserve account for carryover of certain contract amounts. (Child Development rules regarding these reserve accounts are specific to their contracts and are described in the

“green book” Child Development program guidelines.) When the LEA has occasion to use these reserves, the money must be transferred to the appropriate contract (resource) for expenditure, not spent out of the reserve account (resource). If a LEA is billed in one year for unexpended appropriations or unallowed costs, the LEA may not use reserve amounts to pay this bill. If a LEA is billed to return amounts that have accumulated above the maximum limits for reserves, the expenditure may be made out of the reserve account.

C. FAQs about Awards and Other Topics

New FAQs have been added to the SACS homepage, and a few others are ready to be posted. A new section on how to account for award payments to staff was discussed. The FAQ on awards may be found at:

<http://www.cde.ca.gov/sfsdiv/sacs/sacsfaqs/default.asp>

D. New Resource Codes for WIA

The old JTPA programs are now funded by the Workforce Investment Act (WIA). Some of this money comes to LEA through CDE, and this money is accounted for in Resource 5600. However, much more funding comes to LEAs from the federal government through Local Workforce Investment Boards (LWIB). For LEAs not reporting in SACS, these amounts are recorded in Object 8170, but we have no specific resource for the revenue from LWIB in SACS. We discussed the possibility of setting up a range for these programs and agreed upon the following:

Resource 5600 Workforce Investment Act through CDE

Resources 5610-5620 Workforce Investment Act through LWIB, to be rolled up into Resource 5610 for reporting purposes.

E. New Object Codes for GASB 34

Peggy O’Guin led a discussion of new accounts that have been added or are being considered to facilitate the implementation of GASB 34. See Attachment A for the handout that explains some of these changes:

- ✓ To detail a debt service payment between interest and principle, we discussed adding a new Object 7638 for interest expense and renaming Object 7639 for principle reduction. This decision has not yet been finalized.

- ✓ We discussed the use of the new Object 4400 Noncapitalized Equipment, which is available for use in the 2000-01 year but not yet required.

A question arose concerning Object 4400 and the Current Expense Formula (Form CEA). The formula will not be changed, and expenditures coded to Object 4400 will be included in the ratio. As always, expenditures from certain restricted categoricals are excluded, so, for example, computers purchased with Ed Tech resources would be excluded. (See the Software User Guide for a detail of what expenditures are included in the CEA calculation.)

- ✓ The object code for depreciation expense in proprietary funds has been changed from Object 5800 to Object 6900 Depreciation Expense.
- ✓ Fund 19 Foundation Special Revenue Fund will be used to account for resources received from gifts or bequests per *Education Code* Section 41031.
- ✓ Fund 57 Foundation Permanent Fund will be used to account for resources received from gifts or bequests per Education Code Section 41031, a nonexpendable gift used for purposes of the LEA.
- ✓ Fund 73 will be renamed Foundation Private-Purpose Trust Fund for gifts that benefit other than the LEA.

#### F. Retiree Benefit Fund

If an LEA is paying an annuity to a retiree, the payment must be made through payroll. If the LEA charges the cost in the General Fund to Object 3901 and transfers the cash to the a Retiree Benefit fund for later disbursement, the question is how to code the check to the retiree. If your payroll system will not accept Object 5800 in Fund 71, you may have to manually journal the payroll account to Object 5800.

If a district is providing continued health insurance to retired employees, the payment should be coded in the General Fund. If the premiums are paid out of the Retiree Benefit Fund, use Function 6000, Object 5800. (For a detailed explanation of how to code these costs, see the SACS Frequently Asked Questions on Retiree Benefits at [www.cde.ca.gov/sfsdiv/sacs/sacsfaqs](http://www.cde.ca.gov/sfsdiv/sacs/sacsfaqs).)

#### G. Self-Insurance Fund

An LEA may reserve money to pay for losses that their insurance coverage does not cover. If the LEA suffers a loss, the repairs or replacement of equipment should be made out of the general fund. It is then allowable to transfer money from the self-insurance fund to abate those expenditures if done in the same period. (See Procedure 406-3, #10.) It is not appropriate to make those expenditures for building, supply, or equipment losses out of the Self-Insurance Fund.

#### H. How to Close a Fund

There are two ways to close an inactive fund:

- ✓ Use the 7600-7629 Interfund Transfer Out accounts equal to the ending asset and liabilities accounts in the inactive fund along with the 8910-8929 Interfund Transfer In accounts in the receiving fund.
- ✓ At the beginning of the fiscal year in which you wish to open a new fund, use a zero beginning balance (Object 9791) and a credit to Restatement of Fund Balance (Object 9795) that equals the debits to asset accounts and credits to liability accounts. Correspondingly use a debit to Restatement of Fund Balance in the old fund that equals the

credits to empty the asset accounts and debits to empty the liability accounts.

It may be possible to reclassify funds with your County Treasurer rather than physically open and close funds, but for state reporting, the specific fund must be closed and a new fund opened by either of the two methods described.

I. Reclassification of Pupil Testing Function

It has been brought to our attention that in light of the new testing standards, the costs of testing students might be more properly a function of Instructional Related Services rather than Pupil Services. Function 3160 Pupil Testing was originally set up as a service that analyzes a student's progress and to consider what might be the most appropriate placement of that student. However, much current testing is done to analyze the effectiveness of LEA's curriculum and to gauge students' achievements on a statewide basis with the aim of enhancing the LEAs instructional services. We would like to hear from LEAs as to whether it would be more appropriate to move the pupil testing function to a 2000 status, add a new testing function to the 2000 range, or advise LEAs to divide their testing costs between tests that assess student's progress (HSEE), Function 3160, vs. tests that measure a school's efficiency (API), Function 2100.

Appendix A:

**Discussion of New Codes for GASB 34**

Object 4400: Noncapitalized Equipment

Used to account for items of equipment that don't meet the LEA's threshold for capitalization but meet the LEA's threshold for inventory per EC 35168 or LEA local policy.

Object 4400 is available for the 2001-02 fiscal year. It is also available for the 2000-01 fiscal year for any LEAs who want to use it or map to it.

Object 6900: Depreciation Expense

The object code for Depreciation Expense has been changed from 5800 to 6900.

This change impacts only a minority of LEAs because this object is only applicable to proprietary funds, which are maintained on the accrual basis of accounting, and in the government-wide statement of activities. It is not applicable to governmental funds, which are maintained on the modified accrual basis of accounting.

This change was made to accommodate upcoming modifications to the CDE financial reporting software to allow preparation of the new government-wide statements required by GASB Statement 34.

Fund 19: Foundation Special Revenue Fund (*new*)

Used to account for resources received from gifts or bequests per *Education Code* Section 41031 under which earnings and principal may be used for purposes that support the LEA's own programs.

This fund should be used when there is a formal trust agreement with the donor. Other types of donations should be accounted for in the General Fund. Amounts in the Foundation Special Revenue Fund shall be expended only for the specific purposes of the gift or bequest (*Education Code* Section 41032).

Resources accounted for in the Foundation Special Revenue Fund would formerly have been accounted for in an expendable trust fund.

Fund 57: Foundation Permanent Fund (*new*)

Used to account for resources received from gifts or bequests per *Education Code* Section 41031 that are restricted to the extent that earnings, but not principal, may be used for purposes that support the LEA's own programs.

This fund should be used when there is a formal trust agreement with the donor. Other types of donations should be accounted for in the General Fund. Amounts in the Foundation Permanent Fund shall be expended only for the specific purposes of the gift or bequest (*Education Code* Section 41032).

Resources accounted for in the Permanent Fund would formerly have been accounted for in a nonexpendable trust fund.

Fund 73: Foundation Private-Purpose Trust Fund (*not new, but title and definition are changed*)

Exists primarily to account separately for moneys received from gifts or bequests per *Education Code* Section 41031 under which principal and income benefit individuals, private organizations, or other governments, and under which neither principal nor income may be used for purposes that support the LEA's own programs.

This fund should be used when there is a formal trust agreement with the donor. Other types of donations should be accounted for in the General Fund. Amounts in the Foundation Trust Fund shall be expended only for the specific purposes of the gift or bequest (*Education Code* Section 41032).

Change in definition of fiduciary funds:

"Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

"... trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments.

"... *Private-purpose trust funds* ... should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments" [GASB 34, paragraphs 69-72]

Compare pre-GASB 34 definitions:

"*Trust and Agency Funds*--to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other

governmental units, and/or other funds” [*Accounting for Governmental and Nonprofit Entities, Hay, 7<sup>th</sup> Ed*]